The Malayala Manorama Company Limited

December 03, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	299.05 (reduced from 330.69)	**CARE AA; Stable (Double A; Outlook: Stable)**	Reaffirmed
Short-term Bank Facilities	80.00 (reduced from 120.00)	**CARE A1+ (A One Plus)**	Reaffirmed
Total Facilities	**379.05 (Rupees Three Hundred and Seventy Nine crore and Five lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of The Malayala Manorama Company Limited (MMCL) continue to derive strength from the long operational track record of MMCL, strong editorial & management team and the leadership position of 'Malayala Manorama' daily among regional language (Non-Hindi, Non-English) dailies in the country. The ratings also take into account the comfortable financial position of the company characterised by comfortable capital structure, healthy coverage indicators and profitability margins and strong liquidity position.

The ratings are, however, constrained by the company's dependence on a single publication catering to a semi-saturated Kerala market for bulk of its revenues and regional nature of the operations confined largely to Kerala and exposure to volatile newsprint prices. The rating also factors in MMCL's exposure to its subsidiaries, the risk of which is, however, lower with improved performance of the subsidiaries. The ratings also factor in the on-going expansion plans and associated capital expenditure.

Going forward, ability of the company to maintain its market position, efficiently utilise its modernised presses, and grow circulation and advertisement revenues will be the key rating sensitivities. Furthermore, performance of MMCL's subsidiaries will also be key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Long operational track record of the company

MM was started as a four-page weekly newspaper in 1890. The newspaper became a daily in 1928 and today has a daily circulation of over 2 million copies. Over the years, the company has also launched a number of magazines in Malayalam, English and Hindi on various genres such as current affairs, healthcare, automobile, travel, lifestyle, etc and catering to various segments including kids, women etc. The company is a closely-held public limited company. The shareholders comprise members of the founder's family.

Strong editorial and management team

The promoters are actively involved in the day-to-day operations of the newspaper. Chief Editor, Mr Mammen Mathew has been with this newspaper for over four decades. The management functions are looked after by professionals who have been with the company for more than two decades. MM daily, being the leading newspaper in Kerala has been able to put together a well-qualified and experienced journalist team over the years. The company's relations with the employees have been cordial and many of the employees have been associated with the company for long.

Leadership position of 'Malayala Manorama' daily among regional language dailies in the country

MM daily is the largest circulated regional language daily in the country occupying 6th position in terms of average daily circulation. MM is the market leader in Kerala with around 74% more circulation per day as compared to its nearest competitor.

Comfortable financial position characterized by comfortable capital structure, healthy coverage indicators and profitability margins

The company continues to maintain a healthy capital structure aided by comfortable cash accruals. While revenue growth has been moderate, the profitability margins of the company remain high, even though there is a variation year on year on account of increasing employee costs and news print prices. FY18 (refers to the period April 01 to March 31) particularly saw an increase in employee costs from Rs.214 crore to Rs.253 crore which impacted the margins. PBDIT margins saw a sharp drop to 19.02% in H1FY19 on account of the sharp increase in news print prices. The floods in Kerala

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

which was just before the festival season in Kerala also had an impact on advertisement revenues for the half year. The company reported a PBILDT and PAT of Rs.116 crore and Rs.36 crore on a total income of Rs.610 crore in H1FY19.

Strong liquidity position

The company's liquidity profile remained comfortable over the years with minimal working capital utilisation. The company's average CC utilisation for the past one year period (October 2017 to September 2018) was 21%. The current ratio as on March 31, 2018 was 1.91 compared to 1.88 as on March 31, 2017. The company has Rs.209.77 crore as cash and liquid investments as on March 31, 2018.

Key Rating Weaknesses

Dependence on single publication catering to a semi-saturated Kerala market for bulk of revenues

The key publication of MMCL is the MM daily which contributes to majority of the company's total income. During FY17, MM daily contributed to about 87.60% of the total income, but in FY18 the share became 89.25%. The circulation income contributed to 41.40% of the company's publication income during FY18 while advertisement income contributed to 58.60% during the same period.

Exposure to volatile raw material prices and forex risk

Newsprint is the main cost component for the print industry. The raw material prices are dependent on the global demand – supply scenarios. Newsprint prices have significant impact on the profitability of the players in the industry. Fluctuation in forex further aggravates the volatility in the prices. The company hedges its foreign exchange risk by entering into forward contracts. The company is able to cover the newsprint cost with its circulation revenue alone.

Exposure to group entities

The total investment in subsidiaries and associated companies as on March 31, 2018 amounted to Rs.204.01 crore out of which investment in MMTV (100% held by MM) was Rs.154.55 crore. MMCL had extended Rs.21 crore as advance to its Dubai based subsidiary "Malayala Manorama Fujairah LLC" during FY15 which was converted to equity investment during FY16. The adjusted gearing after considering the loans and investments extended to group entities as on March 31, 2018 was 0.17.

Capex associated with modernisation of presses and wind power project

In order to increase the printing speed and to reduce the operating cost, MMCL has been modernizing its printing presses, since FY14. During FY19-20, the company plans to modernise its presses at Trivandrum, Calicut and Aroor apart from installing windmills of about 10 MW. Overall, about Rs.226 crore is expected to be incurred for both the projects. While part of the project is expected to be debt funded, with healthy accruals the capital structure is expected to remain comfortable.

Analytical approach:

Standalone

Applicable Criteria

CARE's Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's methodology for manufacturing companies
Financial ratios –Non-Financial Sector

About the Company

MMCL is engaged in printing and publication of news daily and other magazines. The company's main daily Malayala Manorama is the most widely circulated regional daily in India. MMCL was founded by Mr Kandathil Varghese Mappillai in 1888, with the first issue of the newspaper appearing on March 22, 1890. The daily is currently being printed and published from 19 centres – 11 in Kerala, one each in Mumbai, Delhi, Bangalore, Chennai, Mangalore and three located at overseas locations, viz, Dubai (UAE), Manama (Bahrain)and Doha (Qatar).

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1,200.60	1219.61
PBILDT	342.65	325.16
PAT	151.82	94.63
Overall gearing (times)	0.14	0.14
Interest coverage (times)	15.85	25.56

A: Audited

Status of non-cooperation with previous CRA:
Not Applicable

Any other information:
Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	September 2025	224.05	CARE AA; Stable
Fund-based - LT-Cash Credit	-	-	-	75.00	CARE AA; Stable
Non-fund-based - ST-Letter of credit	-	-	-	60.00	CARE A1+
Non-fund-based - ST-Bank Guarantees	-	-	-	20.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	224.05	CARE AA; Stable	-	1)CARE AA; Stable (03-January-2018)	1)CARE AA; Stable (06-January-2017)	1)CARE AA (14-March-2016) 2)CARE AA (29-December-2015)
2.	Fund-based - LT-Cash Credit	LT	75.00	CARE AA; Stable	-	1)CARE AA; Stable (03-January-2018)	1)CARE AA; Stable (06-January-2017)	1)CARE AA (14-March-2016) 2)CARE AA (29-December-2015)
3.	Non-fund-based - ST-Letter of credit	ST	60.00	CARE A1+	-	1)CARE A1+ (03-January-2018)	1)CARE A1+ (06-January-2017)	1)CARE A1+ (14-March-2016) 2)CARE A1+ (29-December-2015)
4.	Non-fund-based - ST-Bank Guarantees	ST	20.00	CARE A1+	-	1)CARE A1+ (03-January-2018)	1)CARE A1+ (06-January-2017)	1)CARE A1+ (14-March-2016) 2)CARE A1+ (29-December-2015)

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